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1 UNITED STATES DISTRICT COURT  
2 SOUTHERN DISTRICT OF NEW YORK

3 IN RE: ELECTRONIC BOOKS ANTITRUST  
4 LITIGATION

11 MD 2293 (DLC)

5 THE STATE OF TEXAS, et al.,

6 Plaintiffs,

7 v.

12 Civ. 3394 (DLC)

8 PENGUIN GROUP (USA) INC., et al.,

9 Defendants.

10  
11  
12 November 21, 2014  
4:00 p.m.

13 Before:

14 HON. DENISE L. COTE

15 District Judge

16  
17 APPEARANCES (Via telephone)

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APPEARANCES (Continued)

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BY: GAIL LEES

CYNTHIA RICHMAN

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(In open court; case called)

THE COURT: Welcome everyone. This is our fairness hearing on the settlement of the Apple litigation brought by the class of plaintiffs and the states. It addresses the damages settlement reached essentially on the eve of trial. I received papers from plaintiffs' counsel. There were potentially five objections. I will address those in due course. It may be more appropriate to say there were no objections, but we'll talk about the details of that in a moment.

Did either counsel for the states or for the class wish to speak?

MR. BECKER: Your Honor, Gary Becker for the plaintiff states. Your Honor, since our last time we spoke with you, we have carried out the noticing program that you approved. We sent out notices to 23 million people, got the final objections that you referred to, 76 exclusions. And I would note with some color that of the 76 exclusions, one was your Honor and nine were Department of Justice lawyers from the names that I recognized. So I would say that the response of the class has been overwhelmingly positive. I will address any questions the Court has about noticing or distribution. As to the substance of the objections, I will defer to Mr. Berman, Ms. Van Winkle and of course Mr. Berman has the fee application.

THE COURT: Thank you very much.

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1           MR. BERMAN: Thank you, your Honor. I won't repeat  
2 anything that is in our papers in support of the settlement,  
3 but I would make one observation. One of the factors that  
4 courts consider is the reaction of the class and it has been my  
5 experiences doing class actions that the public is scrutinizing  
6 what we're doing much more than it used to when I first started  
7 out in this business. I think it is noteworthy for the Court  
8 to consider that we had 23 million notices go out to readers.  
9 So it is by definition a more sophisticated class than perhaps  
10 than many. So these are intelligent people and 99.97 percent  
11 support the settle. The few objections that we have gotten are  
12 from professional objectors. I think in this day and age it is  
13 an unusually positive that speaks to the fairness of the  
14 settle.

15           Unless your Honor has questions, I have nothing  
16 further.

17           THE COURT: Thank you. I want to make sure Apple has  
18 a chance to be heard if there is anything it wanted to say in  
19 connection with the issues we addressed this afternoon.

20           MS. RICHAMAN: Nothing at this point, your Honor.

21           THE COURT: Thank you.

22           Honestly I gave preliminary approval to this  
23 settlement or we wouldn't be here today. I look carefully at  
24 the terms of the settlement, the notice provision. I carefully  
25 examined the form of the notice and what will be communicated

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1 in substance to consumers around the country who were affected  
2 by this litigation. I reviewed the plan of distributing notice  
3 to them, the plan of division of proceeds from any settlement  
4 and did all of that with care at the time I gave preliminary  
5 approval. It is of course necessary that I now look once more  
6 with care at all of these issues because the class and  
7 consumers around the country have had an opportunity weigh in  
8 if they wanted to. This is a fairness hearing with respect to  
9 the class action settlement, but the states are also making  
10 certain requests for approval here and therefore I am going to  
11 consider everything that has been submitted to me by anyone  
12 whether they are a consumer in the states represented by the  
13 class or a consumer of the states represented by the *parens*  
14 *patriae* litigation.

15 Counsel already noticed for the record that 23 million  
16 consumers were provided with a written description of the  
17 settlement terms. There was an opt-out date of October 31st.  
18 There were the 76 exclusion requests and as counsel mentioned  
19 five objections.

20 Now, the form of the settlement is highly unusual.  
21 There is a settlement agreement that lays out the terms and  
22 that is the document on which I relied and which we used in  
23 writing a description to consumers about the terms of the Apple  
24 settlement. Of course all of the documents have been available  
25 for review by consumers on the websites associated with this

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1 litigation and many consumers -- I think the number was  
2 360,000 -- did visit the website following notice of the  
3 settle. So lots of people have expressed an interest in what  
4 has happened here, have had an opportunity to review it in  
5 great detail and I think that has been an important part of the  
6 process.

7 Now, before I get to the terms of the Apple  
8 settlement, let me just give some context with respect to the  
9 litigation as a whole. There were five publishers who were  
10 defendants in this litigation as well as Apple. Consumers had  
11 recovered from those five publishers close to \$168 million, but  
12 three of the publishers contributed their money to a settlement  
13 essentially at the day the litigation was filed. So this was I  
14 think an amount of funds that can't be properly attributed for  
15 today's purposes to an evaluation of the appropriate attorneys'  
16 fees for class counsel. So the number I am working from as one  
17 of the numbers I am looking at in evaluating the  
18 appropriateness of the attorneys' fees request here is the  
19 publisher settlement excluding Hachette, HarperCollins and  
20 Simon & Schuster. That settlement was close to \$97 million and  
21 something over \$40 million of that is attributed to funds that  
22 will be distributed to consumers in states represented by the  
23 class.

24 Let's turn then to the terms of the Apple settlement.  
25 There are three scenarios described in the settlement

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1 agreement. The first scenario is one in which Apple pays \$400  
 2 million to consumers, the second is one in which it pays \$50  
 3 million to consumers, and the third is one in which it pays  
 4 nothing to consumers. The payment of the \$400 million to  
 5 consumers essentially is associated with an affirmance of this  
 6 Court's decision rendered two Julys July of 2013, following the  
 7 June 2013 liability trial in a case that was prosecuted by the  
 8 Department of Justice and the states. The second figure,  
 9 Scenario 2, in which Apple's payment to consumers is \$50  
 10 million instead of \$400 million will happen if the final  
 11 liability decision is vacated and remanded or reversed and  
 12 remanded with instructions for reconsideration or for retrial  
 13 of the liability finding. There is further explanation,  
 14 however, that that scenario does not apply in the event of a  
 15 remand on administrative or nonsubstantive grounds that do not  
 16 or could not affect the liability finding. The third scenario  
 17 in which Apple pays nothing is one that applies if the final  
 18 liability decision rendered by appellate courts reverses my  
 19 liability finding.

20 Of course, in summarizing these terms I don't intend  
 21 to modify in any way the settlement agreement, the settlement  
 22 agreement is a contract between the parties. Its terms will be  
 23 applied by this Court and I expect if necessary any appellate  
 24 court as described in the document not as stated by me today as  
 25 I am trying to summarize it for our purposes.

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1           Apple has separately agreed to pay attorneys' fees.  
2       So the attorneys' fees as described in the settlement agreement  
3       will come from a separate fund, not from the amounts of money I  
4       have just described. The attorneys' fees payments will go  
5       separately to the states who pursued parens patriae actions and  
6       separately to counsel for the class.

7           Now let's focus on Scenario 1 in which Apple makes a  
8       payment of \$400 million to consumers. The recovery for  
9       consumers in the class I believe is \$160 million in that  
10      scenario. In that scenario the payment of attorneys' fees over  
11      and above the \$160 million would be payment of attorneys' fees  
12      would be \$30 million. That sum is close to 16 percent of the  
13      recovery from Apple and close to -- before I give this figure,  
14      I separately calculated the payments to class counsel from the  
15      settlements in which it had participated in the publishers and  
16      combined that with the payment to the attorneys from Apple and  
17      so we have a bottom line recovery to the class from the  
18      entirety of this litigation and a bottom line recovery to class  
19      counsel in attorneys' fees from the publishers and Apple under  
20      Scenario 1. When you do that calculation, I believe the total  
21      payment to class counsel from the publishers and Apple under  
22      Scenario 1 would be roughly 41 million. The total recovery to  
23      the class would be close to \$500 million. The percentage -- I  
24      am rounding here -- of attorneys' fees under that scenario,  
25      settlements from the publishers and from Apple, would be

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1 17 percent.

2 Let's take that same calculation and apply it so  
3 Scenario 2. Under Scenario 2, remember, Apple is paying only  
4 \$50 million to all consumers for the class. That would be a  
5 payment of \$20 million to the class and the payment to class  
6 counsel for fees and expenses would be \$10 million. Just in  
7 terms of the Apple scenario or the Apple settlement under  
8 Scenario 2, that is a percentage payment of attorneys' fees of  
9 roughly one-third of the recovery. But when you look at the  
10 entire recovery for the class from the publishers and Apple,  
11 pursuant to those lawsuits in which class counsel have been  
12 active, I believe the recovery for the class under Scenario 2  
13 is over \$21 million.

14 I am sorry. Let me start again here. I have read  
15 these figures wrong. Let's start again where we're talking  
16 about combining the recovery from the publishers and Apple.

17 Under Scenario 1 the total recovery for the class was  
18 something like \$200 million, under Scenario 2 it is something  
19 like \$60 million, and Scenario 3, which is the reversal is  
20 something like \$40 million. When you look at the recovery of  
21 class counsel's fees as proposed here, combining the recovery  
22 for the class in those actions in which class counsel have  
23 participated and the Apple recovery, you have fee awards in  
24 Scenario 1 of 17 percent, in Scenario 2 of 26 percent, and  
25 Scenario 3 of close to 22 percent.

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1           With that sort of background set of figures, let me  
2           make some observations here. This is an unusual structure for  
3           a settlement, particularly one that was essentially arrived at  
4           on the eve of trial. There are in my mind two apparent reasons  
5           for reaching this settlement based on what I understand is the  
6           nature of the litigation and what counsel have described to me.  
7           One is that plaintiffs' counsel have expressed confidence that  
8           the liability opinion will be affirmed and that they have a  
9           strong belief in that. The future will tell whether that is  
10          right or wrong. We'll know at some point. The second  
11          principal driver as I understand it is a concern about delay.  
12          Apple essentially did an about-face in this litigation. In its  
13          initial stages it pressed for a speedy trial. It wanted a  
14          trial on liability as quickly as it was possible to schedule  
15          such a trial. But after it lost that trial, it changed tactics  
16          and decided that it would do everything within its power to  
17          delay it and to prevent these actions from arriving at a final  
18          judgment. It made motion upon motion that had varying degrees  
19          of merits and filed a string of appeals. Class counsel made an  
20          evaluation that they could expect continued efforts from Apple  
21          to delay entry of judgment and final resolution of these  
22          actions and Apple is a well funded client and able to deliver  
23          on that litigation strategy.

24                 So with those two assessments, it appears that  
25          plaintiffs' counsel decided that a settlement structured like

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1 this would serve the best interests of the class. They had a  
2 mediator, Mr. Piazza, who they described as a well recognized  
3 and effective mediator and he assisted them in those  
4 discussions, though he was not involved in the final stages as  
5 I understand it based on the papers that I have been given.

6 Before I turn to an evaluation of the factors that  
7 relate more precisely to an evaluation of the fairness of the  
8 class action settlement, I do want to pause and comment on the  
9 performance of counsel for the states because at each step of  
10 the way here the states have been a partner with DOJ and more  
11 recently a partner with the class in the prosecution of these  
12 actions. I think the states have been extraordinarily well  
13 represented in the parens patriae litigation. Indeed, it has  
14 been a very impressive performance. They have cooperated  
15 effectively with the Department of Justice and with class  
16 counsel. They have independently retained experts at different  
17 points in time. Their briefing on certain of the legal issues  
18 was of very great assistance to this Court. It showed a real  
19 commitment on their part to look carefully at the legal issues  
20 and present the Court with arguments that they believe should  
21 be seriously considered. I find that they are entitled to the  
22 payments that they have negotiated from Apple.

23 Turning to the class action, I am required to examine  
24 the fairness, adequacy and reasonableness of the class action  
25 settlement according to the factors set forth in a decision in

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1 Grinnell. The first is the complexity and expense and likely  
2 duration of the litigation. Well, this case is complex. It's  
3 an antitrust lawsuit. Though it concerns a relatively brief  
4 point in time in terms of the negotiation among the  
5 coconspirators of the conspiratorial agreement, the span of the  
6 conspiracy lasted many months. It was an expensive series of  
7 lawsuits to litigate and that included the class action, not  
8 only because of the issues but because of the litigation  
9 choices that Apple made. I've already commented on the factors  
10 that relate to the duration of the litigation. This litigation  
11 has been extended already by Apple's tactics and I think it  
12 would but for this settlement be extended much further because  
13 of those tactics.

14 The second factor is the reaction of the class to the  
15 settlement. They have been supportive. We've already placed  
16 on the record the number of notices sent out, the number of  
17 visitors to the website. Many thousands of calls have been  
18 made to a toll free numbers. There have been under the  
19 circumstances few exclusions and few objections.

20 The third factor is the stage of the proceedings and  
21 the amount of discovery completed. As I mentioned this  
22 settlement was reached essentially on the eve of trial. Full  
23 discovery, both fact and expert discovery, had taken place.  
24 The parties had many rulings. Not just on overarching legal  
25 issues but on issues that affected the shape of the trial, the

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1 admissibility of certain witnesses and the evidence to be  
2 offered through those witnesses.

3 The fourth factor is the risk of establishing  
4 liability. Well, Apple has already been found liable through  
5 the July 2013 trial opinion. It is appealing that decision and  
6 the Court of Appeals will make a judgment about liability  
7 ultimately.

8 The fifth factor is the risks of establishing damages.  
9 The expert for the class estimated -- I should say the expert  
10 for plaintiffs estimated damages on the low side is \$280  
11 million and while Apple planned a vigorous cross-examination of  
12 that expert, Professor Noll, at trial, based on what I saw and  
13 these issues were hotly contested and seriously litigated  
14 before me through a series of motions, I think the plaintiffs  
15 were very likely to succeed before a jury in proving an  
16 entitlement of \$280 million or something close to that figure.

17 The sixth factor is the risk of maintaining the class  
18 action through trial. I don't think there was any serious risk  
19 in that regard. If this is not a class action, I don't know  
20 what kind of action could properly be brought as a class action  
21 in the antitrust context.

22 Number seven is the ability of the defendant to  
23 withstand a greater judgment. That also is not in dispute  
24 here. Apple could pay more than it has agreed to pay here.

25 Number eight is the range of reasonableness of the

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1 settlement fund in light of the best possible recovery. Well,  
2 let's use the \$280 million figure from Professor Noll. Under  
3 the antitrust laws, the plaintiffs are entitled to a trebling  
4 of that figure. That would be \$840 million; but the publishers  
5 have already paid an amount of money, \$167 million. So the  
6 possible recovery from Apple under the law potentially would be  
7 \$673 million. Apple under Scenario 1 has agreed to pay \$400  
8 million of that \$673 million, but that is also without any  
9 reduction for attorneys' fees and it separately pays the  
10 administrative costs associated with distribution of the  
11 settlement funds.

12 So there are different ways to look at these numbers.  
13 Apple alone is paying 140 percent of the damages suffered by  
14 consumers of \$280 million. Or when you combine what is  
15 recovered from the publishers with the amount under Scenario 1  
16 that Apple is paying, consumers will get more than twice of  
17 their amount of damages. So under Scenario 1 I think this is  
18 an excellent recovery for the plaintiffs.

19 Plaintiffs argue that even under Scenario 2 it is a  
20 good recovery for the class with payments by Apple of \$50  
21 million combined with the amount that has been paid by the  
22 publishers already. Consumers will obtain 77 percent of the  
23 \$280 million figure or more than three-quarters of their  
24 damages.

25 In my judgment, and I thought long and hard about this

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1 and I did at the time of the preliminary approval think long  
2 and hard about this, this is entitled to the Court's approval.  
3 I am not going to substitute my judgment for that of  
4 experienced, competent plaintiffs' counsel. I am merely here  
5 to judge the fairness, adequacy and reasonableness in the  
6 context of the litigation as I know it. Judgments were made  
7 here. I think I understand why judgments were made here and  
8 particularly the judgment that it would be better for the class  
9 to get paid sooner rather than later and that Apple's choice to  
10 try to delay resolution of this litigation through delaying  
11 tactics should not prevent consumers from benefiting from a  
12 judgment and it was combined with plaintiffs' counsel's  
13 judgment about the risks of an appeal here and their  
14 assessment. So I am approving the settlement as structured.

15 Let's turn to the issue of attorneys' fees. Let me  
16 before I analyze the series of factors that courts must look at  
17 in connection with attorneys' fee make some observations here  
18 as well preliminarily. Class counsel were very cooperative  
19 with the Department of Justice and the states in this  
20 coordinated litigation. Everyone has benefited from that, both  
21 the defendants, the Court and consumers. Class counsel  
22 benefited all of us, again including the defendants and  
23 certainly consumers, by undertaking the task of collecting vast  
24 quantities of e-Book transactional data so that a very  
25 sophisticated progression model could be run against that data

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1 and render a fairly confident damages figure.

2 Plaintiffs counsel for the class also took the lead  
3 role in several important depositions and also had to litigate  
4 motion after motion defended by Apple here. On the class  
5 certification motion and related litigation with respect to --  
6 and separate litigation addressed to Apple's experts class  
7 counsel succeeded in getting a class certified for consumers in  
8 23 states. It succeeded in a motion to strike entirely the  
9 expert testimony presented by one Apple expert, Professor Colt,  
10 and succeeded in a substantial narrowing of the expert opinions  
11 provided by a second Apple expert, Mr. Orsav and it effectively  
12 depended the motion to exclude testimony from Dr. Noll.

13 There were other motions that had to be litigated, the  
14 motion for summary judgment, a motion for remand made by Apple,  
15 which I denied, a motion to stay the damages trial, which I  
16 denied. There was motion practice by Apple in the Court of  
17 Appeals seeking to appeal my decision certifying the class,  
18 seeking to stay the trial. Both of those motions were denied  
19 by the Second Circuit Court of Appeals within hours of hearing  
20 argument on May 29 by a motions panel.

21 This settlement was reached in mid-June, or at least I  
22 was notified of it. We had an August trial date.

23 The lodestar that plaintiffs class counsel have  
24 identified is roughly \$10 million. Now, if I thought it were  
25 important to my analysis at all here, I would ask for detailed

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1 records. Customarily I examine such records, at least portions  
2 of them; but because of the structure of the settlement here, I  
3 didn't feel that necessary for several reasons. One, the \$10  
4 million figure was not a surprise to me. I thought it was  
5 entirely within the range of what I would have expected in this  
6 case. And since I supervised every have aspect of it, except  
7 the settlement discussions themselves, I think I have a good  
8 judgment to make that. The attorneys' fees are not coming out  
9 of any award to the class but are separately negotiated figures  
10 that were negotiated with the assistance of the mediator and  
11 after the damages calculations were negotiated for the class  
12 recovery. So I think because I've done some analysis of the  
13 percentage of the award of any attorneys' fees here and the  
14 context of the recovery to the class and for a variety of  
15 factors, I don't need to look at the records.

16 Let's turn to the factors I am required by law to  
17 analyze in making a judgment about a request for approval of a  
18 fee award. One is the time and labor expended by counsel. I  
19 have spoken to that already. Two is the magnitude and  
20 complexity of the litigation. Both are significant factors  
21 here and I have spoken to that already.

22 The third factor I have to address is the risk of  
23 litigation and that is from the perspective of plaintiffs'  
24 counsel at the beginning of the case when they take on a case  
25 on a contingency basis not knowing whether the work that they

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1 are about to put into the litigation will be rewarded by a  
2 recovery not only for those it represents but for their time  
3 and effort. I think this is somewhat hard to assess. The  
4 class action was filed before any government lawsuit, but it  
5 was filed while the government investigations were going on and  
6 were very active. I think class counsel would have had to have  
7 made an assessment that it was likely that there would be a  
8 government lawsuit filed. They also had to assess, however,  
9 that both the publishers and Apple were sophisticated and would  
10 be well funded adversaries that would be equal to the task of  
11 litigating these issues. This was expensive litigation for  
12 plaintiffs' counsel. They spent close to a million and a half  
13 dollars in out-of-pocket expenses. On the other hand, the  
14 proof of the price fixing conspiracy was fairly strong and they  
15 would have had to factor that in and even a trial, the  
16 liability trial, Apple's expert had charts and graphs showing  
17 the dramatic shift upward in the price of the publisher  
18 defendants e-Books as a result of the conspiracy or right after  
19 the conspiratorial agreement was hatched.

20 The fourth factor that I have to consider is the  
21 quality of representation. It has been excellent and have been  
22 of great assistance to the Court.

23 The fifth factor is the comparison of the requested  
24 fee in relationship to the settlement, and I've already gone  
25 through those numbers. The fee is entirely consistent with

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1 historical practice in this court in terms of a percentage of  
2 recovery. I should note again that in terms of the Apple  
3 settlement, it is a separately funded pot of money.

4 The sixth factor is public policy considerations and  
5 they include a crosscheck with any lodestar figure. I've  
6 looked at multiplier numbers. They again are in line with  
7 common practice in this courthouse, that is, comparing the  
8 lodestar against the award of attorneys' fees. The multipliers  
9 under the various scenarios go from roughly one to roughly  
10 three and when you combine it with prior settlement figures,  
11 roughly two to roughly four, they are all within the same  
12 range.

13 There are further comments on public policy that I  
14 think are appropriate here. I think the enforcement of our  
15 Nation's antitrust laws is vitally important to the vibrancy of  
16 our economy. Few firms are equipped with the resources and  
17 skills to pursue litigation of this complexity and against such  
18 well funded defendants. The skill with which plaintiffs'  
19 counsel acted in this case benefited the class and I would say  
20 benefited the American economic system as a whole. That is the  
21 importance of antitrust litigation I think.

22 Let me turn briefly to the objections. There were  
23 five. Two of them were people who opposed the existence of  
24 this litigation, and I don't need to comment on those in terms  
25 of the ability to assist me in analyzing any deficiencies in

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1 the settlement. One was from someone who wasn't a class  
2 member. It was a person who is part of the parens patriae  
3 actions and doesn't have a formal voice before this Court, but  
4 obviously I read anything I am sent with care and try to  
5 consider any good argument or comment whatever the source. The  
6 only two that really could be said to come from class members  
7 in a way that might be of assistance to my evaluation of the  
8 terms of the settlement have very limited relevance because  
9 they are made from by professional objectors as opposed to  
10 people who have a stake in the enterprise in a way that a class  
11 member would. There is an attorney, Mr. Bandas, who  
12 represented one class member when that class member was  
13 deposed. The deposition exposed poor understanding about the  
14 settlement and the litigation and she had never met Mr. Bandas.  
15 So that objection has extraordinarily little validity. The  
16 second objection made by a professional objector is a piggyback  
17 brief shorter version of Mr. Bandas's brief.

18           Nonetheless, let me briefly address the principal  
19 points made in these documents. One is that the three-scenario  
20 settlement with Apple is a probability puzzle and hard to  
21 evaluate. Well, I think the notice clearly explained it. I've  
22 addressed why I think it was reached by plaintiffs' counsel  
23 through the assistance of a mediator. The judgment that  
24 affirmance is likely and it would be a terrific recovery for  
25 consumers and even on remand a good recovery and it gets money

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1 into the pockets of consumers sooner rather than later.

2 Another objection was that the attorneys' fees are too  
3 high in the remand scenario. I've looked at that from a  
4 variety perspective, which I have explained, and I reject that  
5 analysis. One argument is that there was "no flash of  
6 brilliance that dramatically altered the litigation" by  
7 plaintiffs' counsel that deserves to be recognized with a fee  
8 award. Well, that is not the test. I've described what the  
9 test is under the law and I have done my best to apply the test  
10 as articulated in the case law that governs my action. There  
11 was an argument that the class representatives did not sign the  
12 settlement agreement. There is no question in my mind that  
13 they were consulted and approved it. There is no requirement  
14 that they sign it. I reject that argument as well. I have  
15 considered all the arguments made in the five submissions by  
16 the so-called objectors and do not find that any of them alters  
17 my analysis of the fairness, reasonableness and adequacy of the  
18 settlement and the fact that I should approve the awards of  
19 fees that I am requested to approve here.

20 Counsel, does anyone have anything they wish to add to  
21 today's proceedings?

22 MR. BERMAN: Just one minor point, your Honor, because  
23 I think we'll have to deal with the objectors in the Second  
24 Circuit. To note for the record, I believe that no objector is  
25 present here today.

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1 THE COURT: Yes. That is true.

2 Anyone else?

3 Thank you so much.

4 MR. BERMAN: Thank you, your Honor.

5 THE LAW CLERK: All rise.

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